

8 Three Dimensional Shapes: Issues of IP and Competition Policy

— Comparative Comments on the Japanese System of Trademark Protection ^(*)

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The recognition of three-dimensional signs as a subject matter eligible for trademark protection gave rise to a large array of legal problems.

Some of these legal problems may be addressed by adjusting the threshold of protection. Tightening the requirements for protection would serve the purpose of ensuring that the grant of an exclusive right in a product shape would yield substantial pre-competitive benefits by allowing consumers to ascertain a product's commercial source on the basis of its design. Lowering the threshold of protection would make sense as it potentially provides traders with protection for business strategies based on three-dimensional trademarks. Consumers may also be better off with the latter option if such an expansion of trademark rights generates benefits that are associated with more dynamic forms of competition with differentiated products.

However, trademark laws rely primarily on the doctrine of functionality to address the concerns regarding the anticompetitive potential of trademark protection.

With regard to the functionality doctrine, the ultimate objective is to identify the cases where trademark protection for product shapes has to be denied categorically because it runs contrary to the policy considerations underpinning the grant of utility/design patents or because it adversely affects competition.

I Introduction

Product shapes have been rightfully included in the circle of signs that can be protected as trademarks, since consumers may well rely upon them in order to identify the commercial source of goods. From the perspective of traders, the adoption of a particular product configuration is often driven by the consideration of effectively designating the commercial origin of their goods. The choice of trade dress constitutes also one of the most important means of differentiating the product to make it appealing to consumers.

On the other hand, the protection of product shapes as trademarks may lead to product monopolies, extend the temporally limited term of patents or other exclusive IP rights, and interfere with the ability of competitors to imitate product shapes that have already entered the public domain. Trademark law has to balance the various interests of traders, their competitors and the consuming public that collide incidentally to

disputes related to three-dimensional trademarks. In fact, it is necessary to balance the social benefits with the social costs of trade dress protection.

The administration of the distinctiveness requirement entails such a balance of interests. Protection is normally granted when there is a palpable social benefit in terms of market transparency, accruing from either the inherent or the acquired distinctiveness of a given product shape. There are instances, however, where trade dress protection would not be socially desirable, even if the product configuration at issue may indeed serve as an indication of commercial source. That would be the case when the assertion of trade dress rights impedes the ability of competitors to compete, to practice inventions disclosed in expired utility patents and incorporate pre-existing technical solutions in their products. The doctrine of functionality would then intervene to bar trade dress protection.

My research aims at categorizing the relevant criteria for the application of trademark

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norms on the basis of their objectives, explaining their rationales in a clear manner and indicating the exact way in which they are to be applied. In terms of the functionality doctrine, the ultimate aim is to identify the cases where trademark protection for product shapes has to be denied, because it runs contrary to the policy considerations underlying the grant of utility/design patents, or because it adversely affects competition.

II Social Costs and Social Benefits of Trade Dress Protection

Trade dress protection generates significant social benefits by facilitating market transparency. In some contexts, the shape of the product is the most effective type of trademark because it economizes very effectively on consumer search costs. When shopping in a supermarket, for instance, trade dress allows the consumer to very quickly find the product he wishes to buy without it being necessary to get closer to the shelves and decipher a small logo. Furthermore, the shape of the product is a very effective marketing tool, as it constantly provides the consumers with a reminder about its seller while using the product.¹ The shape of a designer chair, for example, can be a constant reminder of the brand manufacturer when consumers are confronted with the said product in social events. Product shapes are therefore particularly effective in maintaining brand awareness in the marketplace. It is very often the case that the product configuration is an attribute of the product that triggers its sale. By protecting trade dress and imposing restrictions on imitation, trademark law provides a certain degree of protection to methods of product differentiation.² Since consumers have a preference for product variety, trade dress protection enhances consumer welfare by increasing the purchasing choices of consumers. Thereby, competition for matching consumer preference for differentiated goods is intensified.

Despite their pre-competitive virtues, three-dimensional trademarks may result in significant social costs, since trade dress protection may: a) restrict the imitation of items that have already entered the public domain; b) lead to product monopolies if asserted in respect to shapes that are associated with the generic function of a

product (e.g. the shape of a football or the basic shape of an aeroplane); c) create unlimited utility/design patent rights.

III Optimal Degree of Distinctiveness for Granting Protection to Product Shapes as Trademarks

The threshold for satisfying the distinctiveness requirement reflects just such a balance between the social benefits and social costs of trade dress protection.³ In the light of the social costs of trade dress protection, the US Supreme Court ruled that product shapes may only be protectable as trade dress if they have already acquired secondary meaning.⁴ In a similar vein, the CJEU held that only a shape that significantly deviates from the norm of a given industry may qualify as inherently distinctive within the meaning of Article 3(1)(b) of the Trade Marks Directive.⁵

Other judicial opinions such as the one rendered by the US Supreme Court in the *Two Pesos* case⁶ have been willing to grant protection on the basis of a lower threshold to take into account the plaintiff's legitimate business interests such as a business' need to be protected from imitative competition in the initial stage of its commercial activity. Some lower courts in the US have occasionally endorsed the trader's effort to differentiate his product by accepting that the trade dress at issue qualifies as inherently distinctive because it differs, to some extent, from other product shapes in the marketplace, despite actually comprising common elements.⁷ Lowering the threshold for distinctiveness could make sense for promoting dynamic competition with differentiated products.⁸ This theory could probably explain the outcome in the highly debated and controversial GUYLIAN case of the Japanese IP High Court.⁹

IV The Doctrine of Functionality

1 Introduction

The doctrine of functionality serves the purpose of barring trademark protection whenever the social costs of protection exceed the social benefits to market transparency accruing from a product shape that is either inherently distinctive or has acquired secondary meaning.

2 Competitive Need as a Legal Test for Determining Functionality

According to this legal test, a product configuration may well be protected as a trademark, as long as competitors do not need it for competing in the relevant market.¹⁰ In its most sophisticated version, this rule should prevent the trademark proprietor from interfering with the ability of marketing highly substitutable products.¹¹ For the purpose of administering the effect on competition test it has been recommended to revert to the submarket concept of antitrust law.¹² Accordingly, not all products included within a broader relevant market are equally substitutable. Rather, competition becomes intensified within market segments comprising those products that are highly substitutable with one another.¹³ When defining submarkets, the following practical considerations should be taken into account: the industry or public recognition of the submarket as a separate economic entity, the product's peculiar characteristics and uses, unique production facilities, distinct customers, distinct prices, sensitivity to prices changes, and specialized vendors.¹⁴ A few US decisions have identified competitive need in a manner which is highly reminiscent of the submarket analysis.¹⁵ These criteria shed some light on the difficult legal task of applying the competitive need test and may also serve as guiding principles for applying Article 4(1)(xviii) JTL.

3 Concerns Regarding Trade Dress Protection Pertaining to Patent Policy

The main drawback of the "effect on competition" test is that it does not address the concerns about trade dress protection annihilating patent policy. US courts have developed particular rules for the purpose of effectively demarcating the regulatory realms of patent and trade dress law. Accordingly, the Tenth Circuit held in the *Vornado* case that a product configuration is de jure functional if it amounts to "a significant inventive aspect of the invention so that without it the invention could not fairly be said to be the same invention."¹⁶ The court basically sought to exclude the possibility of trade dress protection interfering with the public's ability to practice inventions disclosed in expired utility patents. Furthermore, the functionality doctrine excludes from trade dress protection signs that are purely technical, namely signs

that simply incorporate technical solutions.¹⁷

As the law now stands in the US, there is a general rule of functionality which is based on competitive need and two *per se* rules directed at regulating the relationship between patents and three-dimensional trademarks.

4 The Theory of Aesthetic Functionality

The core tenet supporting the theory of aesthetic functionality is that the trademark proprietor should only be entitled to secure advantages that are associated with his reputation as a manufacturer, seller or service provider by virtue of his exclusive right in a sign. As a result, trade dress should not be protected because its aesthetic appeal may be such that it renders the trademarked good desirable to consumers. The doctrine gained a foothold in US trademark law as soon as it was recognized by the Ninth Circuit in the *Pagliero* case.¹⁸ In subsequent disputes the courts that adopted this theory sought to analyse in the individual case before them, whether consumers would buy a product because of its appealing design or because of the design's alleged quality guarantee.¹⁹ The doctrine of aesthetic functionality met with harsh criticism, all the more so as it was effectively reducing the incentive of traders to adopt aesthetically appealing trade dress. Nevertheless, the doctrine of aesthetic functionality continues to be of legal relevance in the context of trade dress protection. Instead of excluding aesthetically appealing trade dress from trade dress protection altogether, the doctrine has been modified to exclude product shapes whose aesthetic appeal is so high that is likely to exercise a decisive influence on the consumers' purchasing decisions. This approach has been adopted by the European General Court in the *Bang & Olufsen* case.²⁰ While this legal test is far from clear and remains difficult to apply, it reflects an attempt to find a *per se* rule for regulating the relationship between trade dress and design rights.²¹

V Comments on the Japanese System for Trademark Protection of Product Shapes

1 The Requirement of Inherent Distinctiveness

Under this section I will deal with the distinctiveness requirement as set out in Article 3(1)(iii) JTL. I will highlight the three types of criteria invoked by competent

authorities and courts in Japan in order to interpret that provision and eventually decide on the protectability of a given product shape as a trademark. According to the first criterion, the distinctiveness analysis seeks to determine whether consumers are likely to perceive the respective product shape as a trademark. This is not likely to occur if a product configuration does not significantly deviate from the shape that consumers expect the relevant goods to have in the first place.

The second criterion aims at preventing situations in which traders obtain a monopoly on technical or aesthetically appealing features simply by registering these as trademarks. Registration should be denied, even when a given product configuration comprises unique elements that would in all likelihood be relied upon by consumers to indicate the trademarked goods' commercial origin – provided these features were meant to somehow contribute to the technical function or the aesthetic appeal of the relevant goods. The rationale underlying this interpretation of Article 3(1)(iii) JTL is twofold: first, it is based on the premise that trademarks should not impermissibly extend the temporal scope of patents and design rights; second, it pays deference to the principle of free competition by taking into account the value judgements contained in Article 4(1)(xviii) JTL. The administration of the distinctiveness requirement under the second criterion bears some resemblance to the functionality inquiry in that it balances the social benefit to market transparency resulting from the product configuration's inherent distinctiveness with the possible social monopoly costs that trademark protection would entail.

Both criteria are mentioned in the JPO guidelines. Then there is a third criterion upon which the IP High Court relied in the GUYLIAN case. The court resorted to the “monopolization adaptability theory”²² which, generally speaking, places the emphasis of the distinctiveness analysis on the need to keep a sign available to third parties.²³ Without the need to keep the sign free from exclusivity rights, the decision on its registrability would rather be in favour of the applicant. In my view, this flexible approach allows for a proper balance of the diverse interests involved in trademark disputes. Not only does it allow for the consideration of trader interests when implementing business strategies for the

purpose of product differentiation, but it also takes into account the consumer welfare gains promulgated by a dynamic competition with differentiated products.

2 The Secondary Meaning Requirement

The report proceeds next to briefly examine the administration of the secondary meaning requirement established by Article 3(2) JTL. The main point here is that the case law has developed in a way that makes the outcome of the respective inquiry largely dependent on the applicant's promotional efforts.²⁴ Importantly, surveys on consumer perception are not decisive for establishing secondary meaning. By doing so, the Japanese trademark system gives effect to the general principle that trademark scope increases proportionally to the degree of reputation enjoyed by the party using the trademark. In other words, trademark law rewards a longstanding and successful commercial performance in the marketplace. However, it must be borne in mind that trade dress protection is crucial for smaller businesses as well.

3 Article 4(1)(xviii) JTL – The Japanese Doctrine of Functionality

The problem with Article 4(1)(xviii) JTL, i.e. the Japanese functionality provision, is that it can only be applied when the market would actually be foreclosed as a consequence of trademark protection for a product configuration. As a result, it does not appear that the competent authorities can rely upon this provision to prevent traders from restricting the ability of their competitors to market highly substitutable products. In the same vein, the Japanese doctrine of functionality does not contain rules for the purpose of regulating the relationship between patents and three-dimensional signs that have acquired secondary meaning.²⁵

In any event, the wording of the provision that requires the shape to be “essential to the function” of the relevant products is such that it allows a teleological approach to encompass the aforementioned competitive need theories and the per se rules pertaining to patent policy. To determine competitive need, one could use a narrow market definition for the purpose of ascertaining whether a given shape is necessary for obtaining a particular utility. In addition, a purely technical shape may be

excluded from trademark protection as being essential to the function of the relevant goods in the sense that it constitutes the feature that makes the product actually work. The “essentiality” of the shape could also refer to it being necessary for practicing an invention disclosed in an expired utility patent.

Such a teleological interpretation could result in a greater degree of harmonization between the Japanese trademark law and its US and EU counterparts.

According to the revised version of Article 4(1)(xviii) JTL the functionality doctrine would bar trademark protection for product shapes consisting solely of characteristics of goods. At this point one could only speculate on the interpretation of this provision by the competent authorities. Apparently, the provision is meant to set a limit to the protection of the new types of non-conventional marks²⁶ that the revised JTL will recognise as eligible for trademark protection. It is possible that the competent authorities resort to the criteria relevant to the application of Art 3(1)(iii) JTL thereby excluding from trademark protection all shapes that serve somehow the technical or aesthetic purpose of the relevant goods. Such an application of Article 4(1)(xviii) JTL would unjustifiably curtail the protection of product shapes as trademarks. In any event, the wording of the new provision allows for a teleological interpretation like the one suggested above accommodating the concerns regarding the ability of competitors to market highly substitutable products and the considerations pertaining to patent policy.

VI Conclusion

In the GUYLIAN case, the IP High Court delivered an opinion which sought to reconcile the interests of traders in adopting the trade dress of their choice and the interests of competitors in the availability of product shapes for their own products. If applied carefully, the criteria introduced in the GUYLIAN case of the IP High Court will definitely improve the legal framework for the protection of three-dimensional trademarks.

On the other hand, the functionality doctrine is in need of some refinement so as to encompass situations where trade dress protection would interfere with the ability of competitors to market highly substitutable products. Functionality should also prevent

traders from interfering with the ability of competitors to practice inventions that are already disclosed in utility patents or from availing themselves of pre-existing technical solutions. Beyond the necessary refinements to the interpretation of Article 4(1)(xviii) JTL, it is also vital that the courts engage in a very careful analysis of the product shape. Only by doing so, will it be possible to precisely ascertain the actual utility that the design confers upon the products and thereby have a clear idea of the scope of the monopoly that the applicant is seeking to create.

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- ¹ Krueger Intern., Inc. v. Nightingale Inc., 915 F. Supp. 595 (S.D.N.Y. 1996).
 - ² Apostolos Chronopoulos, *Trade Dress Rights as Instruments of Monopolistic Competition: Towards a Rejuvenation of the Misappropriation Doctrine in Unfair Competition Law and a Property Theory of Trademarks*, 16:1 MARQ. INTELL. PROP. L. REV. 119-179 (2012).
 - ³ See generally, APOSTOLOS CHRONOPOULOS, DAS MARKENRECHT ALS TEIL DER WETTBEWERBSORDNUNG, 2013, 171 et seq.
 - ⁴ Wal-Mart Stores, Inc. v. Samara Brothers, Inc., 529 U.S. 205 (2000).
 - ⁵ Mag Instrument Inc. v (OHIM), Case C-136/02 P, 7.10.2004, paras. 30-32.
 - ⁶ Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763 (1992).
 - ⁷ Callaway Golf Co. v. Golf Clean, Inc., 915 F. Supp. 1206, 1212-13 (M.D. Fla. 1995); Kompan A.S. v. Park Structures, Inc., 890 F. Supp. 1167 (N.D.N.Y. 1995); Banff Ltd. v. Limited, Inc., 869 F. Supp. 1103 (S.D.N.Y. 1994); Chevron Chem. Co. v. Voluntary Purchasing Grps., Inc., 659 F.2d 695 (5th Cir. 1981).
 - ⁸ Chronopoulos, *supra* note 2.
 - ⁹ See the reports on the case offered by Junko Izumi, *Three-Dimensional Trademark Registration in Japan*, 103 TRADEMARK REP. 895, 899-900 (2013) and Hiromichi Aoki, *Fundamental Structure of a Three-Dimensional Trademark System and Its Interpretation - Comparative Studies in Japan, the U.S. and Europe -*, Intellectual Property Law and Policy Journal, Vol. 26, pp. 1-34, January 2010.
 - ¹⁰ In re Morton-Norwich Products, Inc., 671 F.2d 1332 (C.C.P.A. 1982).
 - ¹¹ Chronopoulos, *supra* note 2 at 169-177.
 - ¹² *Id.*
 - ¹³ See generally Jonathan B. Baker, *Stepping Out in an Old Brown Shoe: In Qualified Praise of Submarkets*, 68 ANTITRUST L. J. 203 (2000-2001).
 - ¹⁴ Brown Shoe Co. v. United States, 370 U.S. 294, 325 (1962).
 - ¹⁵ See for example Federal Trade Comm'n v. Staples, Inc., 970 F. Supp. 1066 (D.D.C. 1997).
 - ¹⁶ Vornado Air Circulation Systems, Inc. v. Duracraft Corporation, 58 F.3d 1498, 1510 (10 Cir. 1995).
 - ¹⁷ Traffix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23 (2001).

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- ¹⁸ *Pagliero v. Wallace China Co., Limited*, 198 F.2d 339 (9th Cir. 1952).
- ¹⁹ See generally, Mitchell M. Wong, *The Aesthetic Functionality Doctrine and the Law of Trade-Dress Protection*, 83 CORNELL L. REV. 1116 (1997–1998).
- ²⁰ *Bang & Olufsen A/S v OHIM*, Case T-508/08, 6.10.2011.
- ²¹ Michael S. Mireles, Jr, *Aesthetic Functionality*, 21 TEX. INTELL. PROP. L.J. 155 (2013).
- ²² Soichi Ogawa, *Distinctiveness of Three-Dimensional Trademarks Consisting of the Shape of Goods - Article 3, paragraph (1), item (iii) of the Trademark Act -*, Selected Articles in Honor of the 120th Anniversary of the Founding of Nihon University College of Law, Vol. 1, pp. 269-301, October, 2009.
- ²³ On the “monopolization adaptability theory” see generally SHOEN ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, 1999, Chapter 5, 10 and 17.
- ²⁴ Izumi, *supra* note 9.
- ²⁵ Kazufumi Dohi, *Registration Requirements for Three-Dimensional Trademarks*, L & T, No. 54, 54-62 (2012).
- ²⁶ "Colour per se", "sound", "motion", "hologram" and "position" marks.